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November 17, 2008

AGENDA ITEM 9

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** Fiscal Year 2008-09 Mid-Year Budget Revisions
(First Reading)
- II. PROGRAM:** Administration
- III. RECOMMENDATIONS:**
- (1) The Committee accept the proposed CalPERS Fiscal Year (FY) 2008-09 cost allocation adjustments to the Public Employees' Retirement Fund (PERF), and other funds, and recommend the Board approve the cost allocation as a first reading.
 - (2) The Committee accept the proposed CalPERS FY 2008-09 mid-year increase of \$2,292,000 to the Enterprise Projects Budget for a total budget of \$145,545,000 and recommend the Board approve the Budget as a first reading.
 - (3) The Committee accept the proposed FY 2008-09 mid-year increase of \$700,000 to the CalPERS Headquarters Building Account Budget for a total budget of \$36,881,000 and recommend the Board approve the Budget as a first reading.
 - (4) The Committee recommend the Board approve the transmittal of this agenda item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the FY 2008-09 Budget Act, and to the Legislative Analyst's Office and the State and Consumer Services Agency.

IV. ANALYSIS:

CalPERS Executive Leadership met several times to carefully prioritize and substantiate the resource requests from divisions. Through the Business Planning Process, consideration was given to the Enterprise's ability to fund critical needs utilizing existing resources in the current fiscal year, the impact of postponing or reprioritizing workload, and the impact of deferring requests to the FY 2009-10 annual business and budget planning cycle. Consequently, there is no request to increase the Administrative Budget for the current year.

As a result of extensive planning and analysis, and the recognition of unforeseen circumstances, the proposed FY 2008-09 mid-year budgets for CHBA and Enterprise Projects do include adjustments. These adjustments are described below and reflect efforts to recognize enterprise priorities while introducing minimal resource requests. Additionally, these requests would sustain the ability to achieve CalPERS Strategic Plan goals in FY 2008-09.

ADMINISTRATIVE BUDGET

There are no proposed increases to the Administrative Budget for the current year. Additionally, through the Business Planning Process, CalPERS Executive Leadership has opted to address new priorities, issues that were not known at the time the FY 2008-09 Administrative Budget was prepared, through the redirection of resources within the Enterprise, or by deferring requests. Approximately \$6.5 million of existing resources from within the organization have already been redirected in the current year to address priorities so that the total Administrative Budget remains unchanged.

Cost Allocation Update

CalPERS staff uses a cost allocation methodology to equitably distribute administrative program costs across CalPERS funds. The methodology classifies CalPERS divisions as program or administrative. Program division expenses are charged directly to funds they support, while administrative division expenses are allocated to each fund based on the level of support they provide to program divisions. The Fiscal Services Division annually surveys administrative divisions to determine their level of support over the prior fiscal year. The workload results are then applied to the current year's budget to determine each fund's share of administrative costs. The cost allocation model was completed in October with current year line item budget information and mid-year budget adjustments entered for each division. As a result of those adjustments, approval of the revised fund appropriation levels is recommended. Attachment 1 reflects those revisions.

ENTERPRISE PROJECTS BUDGET

Current Budget

The current budget for Enterprise Projects is \$143,253,000, and is appropriated to the Pension System Resumption (PSR) Project, Enterprise Transition Management (ETM) Project, Automated Real Estate Investment System (AREIS) Project Phase II, and the Telecommunications Project.

The following chart outlines the existing components of the Enterprise Projects Budget:

Description	FY 08-09 (millions)
PSR	\$ 124.1
ETM	11.0
ARIES Project/Phase 2	5.0
Telecommunications Infrastructure	3.1
TOTAL	\$ 143.2

Proposed Budget Increases

This item proposes adjustments to the PSR and ETM projects, and to add the Financial Services Integration Project (FSIP) to the Enterprise Projects Budget for FY 2008-09.

The following chart outlines the proposed changes:

Description	FY 08-09 (millions)
PSR Project Funding Augmentation	\$ 2.8
FSIP/PSR	1.0
FSIP/Fiscal	1.0
ETM	(2.5)
TOTAL	\$ 2.3

The PSR project request of \$2.8 million is to address the following issues:

- \$1.2 million to fund Business Scope Changes; and
- \$1.6 million to fund Employer and Member Interface/Integration needs.

The FSIP is requesting \$2.0 million to build, test and deploy the accounts receivable functionality. The PSR Project cannot “go live” without some means of accounting for and processing long-term accounts receivables. Currently, this capability does not exist in either the PSR design or within the existing PeopleSoft financial application.

The two components of FSIP are reflected at \$1.0 million each. Since negotiations are still ongoing with the vendor, both amounts of \$1.0 million represent placeholders. It is expected that the actual amounts will be greater. Upon the completion of negotiations, and when these two amounts can be finalized, a revised recommendation including the actual amounts will be submitted to the Board for approval in December.

The last adjustment to the Enterprise Budget occurred as a result of a modification to the scope of the ETM Project. This modification was presented to the Board at the September 2008 meeting, resulting in a \$2.5 million reduction to the FY 2008-09 ETM budget.

The AREIS Project Phase II and Telecom Projects remain unchanged.

In summary, the proposed adjustment to the Enterprise Projects Budget for FY 2008-09 is \$2.3 million, increasing the budget to \$145.5 million, which represents an increase of 1.6 percent for the current year. Again, since the amounts reflect both FSIP components as placeholders, it is expected the amounts submitted for approval with the second reading in December will be greater than what is reflected here.

Attachment 2 provides detailed information on the beginning budget, changes, and proposed new budgets for each of the initiatives within the Enterprise Projects Budget.

CalPERS' HEADQUARTERS BUILDING ACCOUNT (CHBA) BUDGET

The existing CHBA represents the operating costs associated with the CalPERS Headquarters Complex, which includes Lincoln Plaza North, Lincoln Plaza East, Lincoln Plaza West, as well as the Emergency Operations Center. The approved CHBA budget for FY 2008-09 is \$36.2 million. With the pending transition of the Thompson Diggs Building, the Thompson Diggs parking lot, and the Ramos Building to the capital account as restricted assets, the budget will need to be adjusted to reflect the inclusion of related revenues and expenditures. As a result, a mid-year increase of \$700,000 is proposed to fund operating costs for these three properties in the current year.

The adjustment to the CHBA assumes the transfer would be effective on or after January 1, 2009. The proposed change to the CHBA takes into consideration that the transfer of property could occur at the end of the second quarter, or the end of the third quarter. As a result, this adjustment assumes revenue for only one quarter (\$675,000), and expenses for two quarters (\$700,000) to assure that sufficient authority exists in the CHBA to meet operational needs.

Collectively, on an annual basis, all three properties will generate approximately \$2.7 million of revenue. With annual expenses of \$1.4 million, it is estimated these properties will generate net revenue of almost \$1.3 million annually. This proposal

will increase the FY 2008-09 CHBA to \$36.9 million. See Attachment 3 for more details on this request.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic Plan. It is brought to the Finance Committee and the Board to satisfy the following requirements: (1) obtain approval of FY 2008-09 mid-year budget revisions; and (2) fulfill Budget Act control language requirements.

VI. RESULTS/COSTS:

There is no increase to the CalPERS FY 2008-09 Administrative Budget of \$334.2 million. The Enterprise Projects Budget of \$143.3 million will increase by \$2.3 million, or 1.6 percent, to \$145.5 million. The CHBA budget of \$36.2 million will increase by \$700,000, or 1.9 percent to \$36.9 million. Recommendations contained in this agenda item will take effect upon the approval of the second reading by the Board at the December 18, 2008, meeting.

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JOHN HIBER
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Attachments